



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board

Ben Ysursa, Secretary of State

Lawrence G. Wasden, Attorney General

Donna M. Jones, State Controller

Tom Luna, Superintendent of Public Instruction

George B. Bacon, Secretary to the Board

State Board of Land Commissioners

Regular Meeting – October 16, 2008

Final Minutes

Meeting Held Off-site at Coeur d'Alene School District's Midtown Center

The October 16, 2008 regular meeting of the State Board of Land Commissioners was held in the Coeur d'Alene School District's Midtown Center.

The Idaho Department of Lands manages state endowment lands. When Idaho achieved statehood in 1890, over three and one-half million acres of land was granted to the state by the federal government to support public schools and other designated beneficiary institutions.

Of the endowment beneficiaries, Public Schools own 2,091,827 acres (570,288 Primary Forest Land; 183,440 Secondary Forest Land; 1,338,099 Non-forested Land [*source: 2007 Department of Lands' Annual Report*]). Our founding fathers outlined the purpose of endowment lands in Article 9, Section 8 of Idaho's Constitution. These lands are to be managed "in such manner as shall secure the maximum long-term financial return to the institution to which granted." Income is primarily generated through timber sales, livestock grazing, mining and other commercial ventures, such as communication sites, office buildings, parking lots and ski resorts.

The Idaho Constitution also established the State Board of Land Commissioners to oversee endowment land management. The Board consists of the Governor, Secretary of State, Attorney General, State Controller and the Superintendent of Public Instruction. The Land Commissioners act in the capacity of trustees on behalf of the beneficiary institutions.

To acknowledge the endowment lands' contribution to the Coeur d'Alene School District's fiscal year 2009 budget, Governor Risch, Secretary of State Ysursa, Attorney General Wasden, Controller Jones and Superintendent of Public Instruction Luna presented District Superintendent Hazel Bauman with a facsimile check in the amount of \$1,041,673.50.

ADMINISTRATION
DIRECTOR'S OFFICE
300 North 6th St Suite 103
Post Office Box 83720
Boise ID 83720-0050
Phone (208) 334-0200
Fax (208) 334-2339



STATE BOARD OF LAND COMMISSIONERS
C. L. "Butch" Otter, Governor
Ben Ysursa, Secretary of State
Lawrence G. Wasden, Attorney General
Donna M. Jones, State Controller
Tom Luna, Sup't of Public Instruction

Final Minutes
Regular Land Board Meeting – October 16, 2008
Off-Site Meeting – Coeur d'Alene

The Idaho State Board of Land Commissioners' meeting began at 9:03 a.m. in the Coeur d'Alene School District's Midtown Center, 1505 North 5th Street, Coeur d'Alene. The Honorable Governor Jim Risch presided. The following members were present:

Honorable Secretary of State Ben Ysursa
Honorable Attorney General Lawrence Wasden
Honorable State Controller Donna Jones
Honorable Superintendent of Public Instruction Tom Luna

It was noted for the record that Governor Otter is currently out of the country leading a trade mission to Hong Kong, Macau, Vietnam and Taiwan.

• **CONSENT**

A motion was made by Secretary of State Ysursa to approve the Consent Agenda in its entirety. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

1. Director's Report – approved

- A. Interest Rate on Department Transactions – October 2008
- B. Timber Sale Activity Report
- C. Timber Sale Official Transactions
- D. Legal Matter Summary
- E. Bureau of Surface and Mineral Resources, Official Transactions – August 2008
- F. Bureau of Real Estate, Official Transactions, Land Sale – August 2008
- G. Bureau of Real Estate, Official Transactions, Easement – August 2008
- H. Fire Settlement Information
- I. Final Fire Season Report

DISCUSSION: Attorney General Wasden noted that Canadian imports are at their lowest level since 1991. He asked about the projected future for those imports and how that situation affects the U.S. market. Director Bacon stated he has heard that the Canadian timber industry has basically collapsed. Not only have they experienced a massive tree die off due to insects and climate change, they are also losing their forest base. While it is likely Canada will always have a timber industry, they seem to have been removed from the playing field a little bit. In addition, with the U.S. dollar and the Canadian dollar being fairly equal in value now, whoever has raw material closer to the end user has a competitive advantage.

2. Timber Sales – Staffed by Roger Jansson, Operations Chief-North, and Kurt Houston, Operations Chief-South – **approved**

<u>NORTH OPERATIONS</u>				<u>County</u>	<u>IDL Area Ofc</u>
A. Elk on the Run	CR-30-0530	7,800	MBF	Shoshone	St. Joe
B. Watson Gulch	CR-31-0012	4,010	MBF	Shoshone	Cataldo

SOUTH OPERATIONS

C. Scattered Deer	CR-40-0791	4,210	MBF	Clearwater	Clearwater
-------------------	------------	-------	-----	------------	------------

DISCUSSION: Regarding Sale A, Elk on the Run, Governor Risch asked which disease is affecting this species. Director Bacon stated generally diseases are root diseases, both Armillaria and Schweinitzii. Operations Chief-North Roger Jansson added this is a mature stand that has reached a point where it needs to be harvested. The area will be replanted with white pine, larch and possibly cedar.

Regarding Sale B, Watson Gulch, Governor Risch asked if the stand is still useable for log homes or poles. Director Bacon stated it is salvageable as sawlogs, but it needs to be harvested quickly due to the perishable nature of the material.

3. Lava Hot Springs Food Concession Lease – Staffed by Mark Lowe, Lava Hot Springs Foundation – **approved**

DEPARTMENT RECOMMENDATION: That the Board approve the Lava Hot Springs Foundation Food Concession Lease and direct the Lava Hot Springs Foundation to proceed with lease issuance.

DISCUSSION: Governor Risch asked about the lease length. Mr. Lowe responded the length of the lease is initially 20 years. Lease payments are fixed for the first five years and then tied to the Consumer Price Index in five year increments thereafter. Governor Risch asked if the Foundation is unanimous in approval of this recommendation. Mr. Lowe stated yes. The RFP was an open-competitive bid. Only one vendor expressed interest in constructing the facility. The Board of Directors of the Foundation reviewed the proposal and approved it unanimously. Governor Risch asked how much the vendor will spend on construction. Mr. Lowe stated approximately \$45,000-\$50,000, which includes equipment. Governor Risch asked if the Foundation owns the facility, including the improvements and fixtures, at the end of twenty years. Mr. Lowe stated yes. It is a standard state lease. Either the Foundation will take the improvements or have those improvements removed at the Foundation's request.

BOARD ACTION: Approved.

4. Minutes – **approved**

A. Regular Land Board Meeting – September 16, 2008

• **REGULAR**

5. Endowment Fund Investment Board Manager's Report – Presented by Larry Johnson, Manager of Investments

- A. Monthly Report
- B. Investment Report

Mr. Johnson stated that the Endowment Fund Investment Board held a special meeting earlier this month to review the status of the portfolio and issues associated with a securities lending cash pool. The audit of EFIB financial statements for fiscal year 2008 has been completed. The head of the EFIB Audit Committee, John Taylor, will make a formal report to the Land Board at the November 18 meeting. As a preview of that report, there were no findings by the auditor.

At the next meeting in November, the EFIB will discuss the implementation timetable to increase the amount of international equities from 20% to 30%.

In September, the fund lost 8.6%, bringing fiscal year-to-date results to -9.7%. So far in October, the fund lost another 15%. Investment managers are performing as expected.

Governor Risch asked Mr. Johnson about the outlook. Mr. Johnson stated he believes the market is shifting from concern about the stability of the financial institutions to concern about the economy and overall levels of sales and economic activity and how that will affect earnings. These concerns were reflected in the October market returns.

On a positive note, Mr. Johnson stated the fund has significant reserves in each of the endowments. It is estimated that each endowment has at least three years of reserve funds in the bank. Therefore, this poses no threat to the approved distributions for this year or next year.

Governor Risch asked about the three-year reserve. Mr. Johnson explained each endowment has a Permanent Fund and a Reserve Fund. By statute and Idaho Constitution, the endowments can not spend the principal, or the Permanent Fund portion, of each endowment. The endowments can spend accumulated earnings from the land and from the fund that are held in the reserve fund. While they are invested in the same pool with the same asset mix, each fund is accounted for separately to determine the amount in reserves. At this point, reserves range between three and five years of distributions depending on the endowment.

Secretary Ysursa thanked Mr. Johnson for the recent information on the securities lending pool and Governor Risch asked for an oral summary. Mr. Johnson stated that the endowment, like many other institutional investors, loans its securities to earn additional income. To protect the fund from loss, borrowers provide cash collateral or security for the loan and the endowment's custodian, Northern Trust, invests that collateral. In the 27 years Northern has been managing these securities lending pools, lenders have been able to terminate their participation in the lending program in a matter of days. However, with the unprecedented turmoil in short-term bond markets, some securities in the pool are selling at a discount, so Northern is restricting withdrawal from the pool so they can hold securities to maturity. This has not placed a hardship on the endowments at this point, but the EFIB continues to monitor the situation very closely.

No action was taken on this agenda item.

- **INFORMATION**

Director Bacon briefed the Board on the Information Agenda items. No Land Board action is required on the Information Agenda.

6. **Update on Marketing of Elk Valley Subdivision Lots** – *Staffed by Perry Whittaker, Strategic Business Analyst*
7. **General Fund Holdback** – *Staffed by Patrick Hodges, Division Administrator, Support Services*

8. Fire Protection Exchange with Federal Agencies (Offset Agreement) – Staffed by David Groeschl, Assistant Director, Forestry and Fire

DISCUSSION: Attorney General Wasden stated it is his understanding we are not adding a great deal of wildland-urban interface lands, but instead we are adding wildland areas and therefore a larger number of acres would flow our way but the intensity of cost is concentrated more in the WUI acres. Director Bacon stated that is correct. We will be adding more forested land and, in exchange, the federal agencies are protecting the same amount, but in those areas fuels have changed along with related complications. The Department views this as a necessary exchange. The alternative, if federal agencies were not willing to participate in an offset kind of agreement, would be to require the State to establish all new infrastructure, new fire districts, new offices, more trucks, etc., in places that do not have that presence now. The Department believes this agreement is fair ultimately for both parties and hopes federal agencies continue to enter into this kind of agreement with the State.

Governor Risch asked where the acres are being added. Director Bacon stated the Department is still negotiating with the Forest Service and BLM on specific acres. Acres tend to be along corners of areas the Department already protects. The Department is keying in on areas that do not have a high fire occurrence so the anticipation is no new resources will be needed. There should be no cost impact to the state, but Director Bacon stated he wants to make sure the Board is aware the Department will be protecting more acres than it has in the past.

Pursuant to Idaho Code 67-2345(1)(f), at 9:46 a.m. Attorney General Wasden requested unanimous consent that the Board dissolve into Executive Session for the purpose of communicating with legal counsel regarding legal ramifications of, and legal opinions for, pending litigation or controversies not yet being litigated but imminently likely to be litigated. In addition, Attorney General Wasden requested that the secretary record the vote in the minutes of the meeting. Controller Jones seconded the motion. The motion carried on a vote of 5-0 with Governor Risch, Secretary of State Ysursa, Attorney General Wasden, Controller Jones and Superintendent Luna voting aye.

Prior to beginning the Executive Session, a brief recess was taken. The Executive Session began at 9:56 a.m.

• **EXECUTIVE SESSION**

A. Idaho Code 67-2345(1)(f) – To communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated.

At 10:25 a.m. a motion was made by Attorney General Wasden to resolve into Regular Session. Controller Jones seconded the motion. The motion carried on a vote of 5-0. No action was taken by the Board during the Executive Session.

There being no further business to come before the Board, at 10:26 a.m. a motion was made by Attorney General Wasden to adjourn. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0. Meeting adjourned.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ C. L. "Butch" Otter

C. L. "Butch" Otter
President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ Ben Ysursa

Ben Ysursa
Secretary of State

/s/ George B. Bacon

George B. Bacon
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the November 5, 2008 special Land Board meeting.